

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Compliance Review

# **Young Elementary School District No. 5**

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

March 13, 2007

Governing Board  
Young Elementary School District No. 5  
P.O. Box 390  
Young, AZ 85554

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2004 and 2005, and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Heinfeld, Meech & Co., P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport  
Auditor General

# TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District should maintain accurate financial records	2
Recommendation 2: The District should strengthen controls over competitive purchasing and expenditures	3
Recommendation 3: The District's controls over its cash and bank accounts should be strengthened	4
Recommendation 4: The District should maintain an accurate and complete capital assets list	5



# INTRODUCTION

Young Elementary School District No. 5 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.1 million it received in fiscal year 2005 to provide this education.

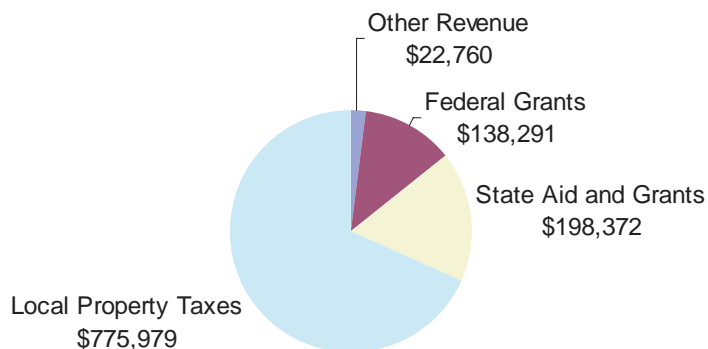
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

## District Facts Fiscal Year 2005

County: Gila  
Number of Schools: 2

Number of Students: 64  
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2004-2005 and Young Elementary School District No. 5 Report on Audit of Financial Statements and Report on Internal Controls and on Compliance for the Year Ended June 30, 2005.*

# The District should maintain accurate financial records

The District's accounting records were not reconciled to the County School Superintendent's records.

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. To achieve this objective, management should ensure that its accounting records are accurate and complete and that transactions are properly recorded. However, the District did not fully accomplish this objective. For example, the District did not reconcile its records of revenues, expenditures, and cash balances to the County School Superintendent's (CSS) records. In addition, the District did not record all transactions in accordance with the USFR Chart of Accounts, and sometimes recorded revenues in its accounting records twice. Further, the District did not maintain documentation to support journal entries.

Additionally, the auditors determined that the District did not provide accurate and complete information on its expenditure budget and annual financial report (AFR). Specifically, the District did not report the correct student count on the District's budget worksheets, and budgeted and actual expenditures reported on the AFR did not always agree with the District's most recently revised expenditure budget and accounting records.

## Recommendations

To ensure the accuracy of its accounting records, the District should:

- Reconcile its records of cash balances by fund monthly and its records of revenues, expenditures, and cash balances by fund, program, function, and object code at fiscal year-end to the CSS' records. All reconciling items should be investigated and any necessary corrections made.
- Classify all transactions in accordance with the USFR Chart of Accounts.
- Document when revenues are posted to the accounting records to prevent duplicate posting. For those revenues posted by the CSS, verify that all revenues are appropriate as part of the monthly reconciliation to the CSS' records.
- Ensure that each journal entry contains explanations or attachments to support the entry, and the signature or initials of the individual making the entry and the official approving it.

USFR page VI-B-8 includes reconciliation procedures.

- Obtain student counts to prepare the current year's expenditure budget worksheets from the prior year's ADE ADMS 46-1 report.
- Require a second employee to verify that amounts reported on the AFR agree with the most recently revised expenditure budget and accounting records before submitting it to ADE.

## The District should strengthen controls over competitive purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow procedures designed to help ensure that the District receives the best possible value for the public monies it spends and that its expenditures are properly authorized. School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. However, the District did not always follow these guidelines. For example, the District did not follow sole source purchase requirements and did not always obtain oral price quotations for purchases that required them. In addition, the District did not always prepare and properly approve purchase orders, including purchases made with credit cards, before goods or services were received, and paid expenditures in excess of approved purchase order amounts. Finally, amounts encumbered on the Advice of Encumbrance for the Unrestricted Capital Outlay Fund exceeded the budget balance at fiscal year-end.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

## Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Retain written documentation of the Governing Board's determination that there is only one source from which to obtain a required material, service, or construction item. Sole source procurement should be avoided, except when no reasonable alternative source exists.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

Guidelines for oral price quotations can be found on USFR pages VI-G-8 and 9, and in USFR Memorandum No. 213.



- Prepare and properly approve purchase orders before ordering goods and services, and ensure that purchase order amounts are not exceeded without proper approval.
- Prepare receiving reports for all goods and services received, except exempted items.
- Retain supporting documentation and match receiving reports, vendor invoices, and purchase orders before authorizing payment.
- Ensure that the amount encumbered to pay for liabilities on the Advice of Encumbrance for each levy fund is less than or equal to the unexpended budget balance.

## The District's controls over its cash and bank accounts should be strengthened

The District receives cash from various sources, including student activities and food service, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should establish and maintain effective internal controls to safeguard cash. However, the District did not have adequate controls over its cash and bank accounts. Specifically, the District did not always separate cash-handling and recordkeeping responsibilities for its food service clearing bank account. In addition, the District did not ensure student activities cash receipts were properly supported and did not deposit student activities and food service monies in a timely manner. Further, student activities disbursements were not always properly authorized, and the District did not resolve differences noted in the student activities reconciliations. Finally, the District did not submit a monthly report of cash receipts, disbursements, transfers, and cash balances for student activities to the Governing Board.

Poor cash controls left student and district monies susceptible to loss, theft, or misuse.

## Recommendations

To strengthen controls over district and student monies, the District should:

- Separate cash-handling and recordkeeping responsibilities among employees and ensure that bank reconciliations are prepared by an employee not responsible for these functions. If this is not possible due to small staff size, additional supervisory reviews should be performed, and district management should review and approve the reconciliations.
- Prepare cash collection reports to document sales and reconcile cash collections for student activities events. Student clubs should document sales at

student activities events by issuing prenumbered cash receipts or tickets, or by a count of items sold. If it is not practical to issue receipts, sell tickets, or count items before and after the sale, such as for bake sales, clubs should prepare cash collection reports to document cash collected.

- Deposit cash receipts daily, when significant, or at least weekly.
- Remit monies in the food service clearing bank account to the County Treasurer to the credit of the Food Service Fund weekly, or at least monthly.
- Ensure that disbursements of student activities monies are approved by student clubs and documented in the club's minutes.
- Reconcile the student activities general ledger balance to the student club list balance as part of the monthly student activities bank reconciliation, and make necessary corrections to the records.
- Ensure that a report of cash receipts, disbursements, transfers, and cash balances for student activities is prepared monthly and submitted to the Governing Board by the student activities treasurer.

A sample monthly activity report is available on USFR page X-H-28.

## The District should maintain an accurate and complete capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, effective stewardship requires the District to maintain accurate lists of these assets. However, the District did not accomplish this objective. Specifically, the District did not perform reconciliations to ensure that all capital assets acquired during the year were included on its capital assets list. In addition, the District did not dispose of surplus property appropriately, and inappropriately tagged an asset item with two identification tags.

## Recommendations

To ensure that its capital assets and stewardship lists are accurate and complete, the District should reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year and investigate and resolve any differences. To improve control over its assets, the District must dispose of surplus property in accordance with the R7-2-1131 of the School District Procurement Rules and USFR guidelines. In addition, the District should affix only one permanent tag number to each asset on the capital assets and stewardship lists, or specifically identify the assets by some other means such as serial numbers.

The form on USFR page VI-E-13 may be used to reconcile capital assets additions to capital expenditures.